



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE October 21, 2004

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on Clarke Community School District in Osceola, Iowa.

The District has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Also included is Management's Discussion and Analysis of the District's financial statements.

The District's revenues totaled \$12,099,456 for the year ended June 30, 2004, and included \$4,196,531 in local tax, charges for service of \$921,497, operating grants, contributions and restricted interest of \$1,708,366, capital grants, contributions and restricted interest of \$115,438, unrestricted interest of \$20,040, unrestricted grants of \$5,131,648 and other general revenues of \$5,396.

Expenses for District operations totaled \$11,285,387, and included \$4,082,050 for regular instruction, \$2,092,733 for special instruction and \$1,013,711 for administrative services.

A copy of the audit report is available for review in the Office of Auditor of State and the District Secretary's office.

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CLARKE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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Clarke Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2003 Election)

Doug Stearns	President	2005
W. Edward White	Vice President	2004
Roger Cole	Board Member	2003
Chuck DeVos	Board Member	2003
Jeff Wilken	Board Member	Resigned
Michael Motsinger	Board Member	2004
Linda Henry	Board Member	2005

Board of Education

(After September 2003 Election)

Doug Sterns	President	2005
W. Edward White	Vice President	2004
Kris Lange (Appointed)	Board Member	2004
Michael Motsinger	Board Member	2004
Linda Henry	Board Member	2005
Michael Evink	Board Member	2006
Jeff Wilken	Board Member	2006

School Officials

Ned Cox	Superintendent	Indefinite
Ruth White	District Secretary/Treasurer and Business Manager	Indefinite
Bob Reynoldson	Attorney	Indefinite
Jeff Krausman	Attorney	Indefinite

Clarke Community School District



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Independent Auditor's Report

To the Board of Education of
Clarke Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Clarke Community School District, Osceola, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

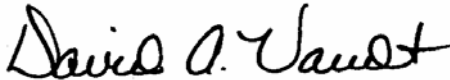
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Clarke Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 9 to the financial statements, during the year ended June 30, 2004, Clarke Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

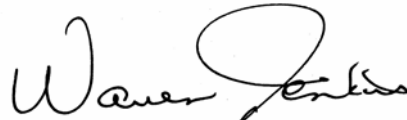
In accordance with Government Auditing Standards, we have also issued our reports dated August 24, 2004 on our consideration of Clarke Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 44 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clarke Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 24, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Clarke Community School District provides this Management's Discussion and Analysis of its financial statements. The analysis focuses on the District's financial performance as a whole for the fiscal year ended June 30, 2004. Please read it in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations

2004 FINANCIAL HIGHLIGHTS

- The State of Iowa allowed a 2% growth for the 2003-04 school year.
- General Fund revenues increased from \$9,693,717 in fiscal 2003 to \$10,065,792 in fiscal 2004, while General Fund expenditures increased from \$9,372,349 in fiscal 2003 to \$9,666,800 in fiscal 2004. The District's General Fund balance increased from \$1,118,457 as restated for fiscal year 2003 to \$1,517,854 in fiscal year 2004, a 36% increase.
- The increase in General Fund revenues was attributable to an increase in property tax, federal grant revenue, and the District claiming Medicaid reimbursable expenses in fiscal 2004. The increase in expenditures was due primarily to an increase in negotiated salary and benefits, restricted grant expenditures, and the purchase of two special education vehicles and one yellow school bus.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Clarke Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Clarke Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Clarke Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

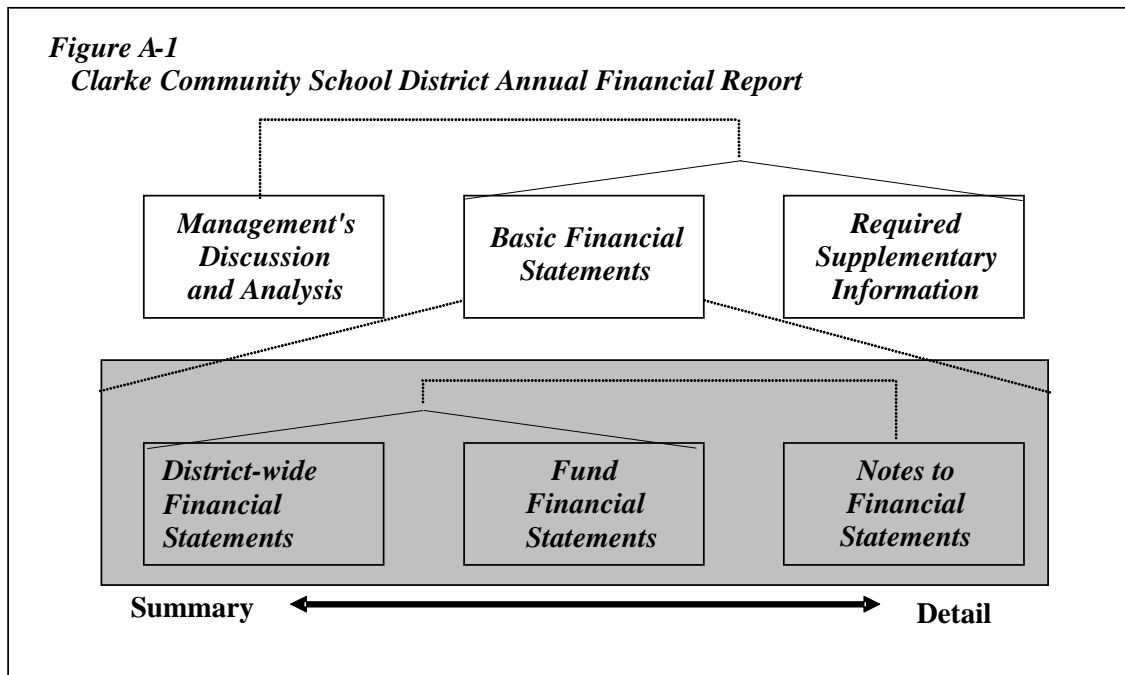


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's food service program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, (such as repaying its long-term debts) or to show it is properly using certain revenues, (such as federal grants).

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities, but provides more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. Internal Service Funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one Internal Service Fund, the Flex Spending Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following analysis shows the District's total net assets at June 30, 2004.

Figure A-3			
Condensed Statement of Net Assets			
(Expressed in Thousands)			
	Governmental Activities	Business Type Activities	Total District
Current and other assets	\$ 6,769	216	6,985
Capital assets	8,395	81	8,476
Total assets	15,164	297	15,461
Long-term liabilities	6,045	-	6,045
Other liabilities	4,702	40	4,742
Total liabilities	10,747	40	10,787
Net assets:			
Invested in capital assets, net of related debt	2,534	81	2,615
Restricted	403	-	403
Unrestricted	1,480	176	1,656
Total net assets	\$ 4,417	257	4,674

Net assets increased \$814,069, or 21.1%. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints, is \$1,655,601.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

Figure A-4			
Changes in Net Assets			
(Expressed in Thousands)			
	Governmental Activities	Business Type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 667	254	921
Operating grants, contributions and restricted interest	1,431	278	1,709
Capital grants, contributions and restricted interest	115	-	115
General revenues:			
Property tax	4,191	-	4,191
Local option sales and service tax	6	-	6
Unrestricted state grants	5,132	-	5,132
Unrestricted investment earnings	19	1	20
Other	6	-	6
Total revenues	<u>11,567</u>	<u>533</u>	<u>12,100</u>
Program expenses:			
Instruction	6,756	-	6,756
Support services	2,892	-	2,892
Non-instructional programs	12	512	524
Other expenses	1,114	-	1,114
Total expenses	<u>10,774</u>	<u>512</u>	<u>11,286</u>
Change in net assets	<u>\$ 793</u>	<u>21</u>	<u>814</u>

Property tax and unrestricted state grants account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 85% of the total expenses.

Governmental Activities

Revenues for the governmental activities were \$11,566,704 and expenses were \$10,773,572. The recent good health of the District's finances can be credited both to strict budgeting and staff reduction to recover from fiscal 2002 when the State of Iowa imposed a 4.3% reduction in State Foundation Aid, which reduced General Fund revenues by \$232,347. The local option sales tax revenue contributed \$6,024 in additional revenue in fiscal 2004, with an expected \$450,000 in fiscal 2005.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(Expressed in Thousands)		
	Total Cost of Services	Net Cost of Services
Instruction	\$ 6,756	5,146
Support services	2,892	2,820
Non-instructional programs	12	6
Other expenses	1,114	588
Total	<u>\$ 10,774</u>	<u>8,560</u>

- The cost financed by users of the District's programs was \$667,575.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,430,927.
- The net cost of governmental activities was financed with \$4,196,531 in property and other taxes and \$5,131,648 in unrestricted state grants.

Business Type Activities

Revenues for business-type activities were \$532,752 while expenses were \$511,815. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Clarke Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,096,069, an increase from last year's ending fund restated balance of \$1,521,080.

Governmental Fund Highlights

- The General Fund balance increased from \$1,118,457 to \$1,517,854, due in part to strict budgeting by the district and staff reduction to recover from a prior year reduction in state aid.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$36,034 in fiscal 2003 to \$184,744 in fiscal 2004. While expenditure remained approximately the same, the District received a federal Fund for the Improvement of Education grant for \$114,987 to complete building and roof improvements.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$235,867 at June 30, 2003 to \$256,804 at June 30, 2004, representing an increase of approximately 9%. In fiscal 2004, the District offered students the option of a-la-carte items at lunch with little additional cost to the program. This change resulted in an increase in items served and a related increase in revenue and net assets.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on a GAAP basis. The certified budget was not amended in fiscal year 2004.

The District's revenues were \$243,308 less than budgeted revenues, a variance of 2%. The most significant variance resulted from the district receiving less state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line item budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested, net of depreciation, \$8.5 million in a broad range of assets, including newly remodeled school buildings that are not significantly depreciated, athletic facilities, computer and audio-visual equipment, and vehicles. (See Figure A-6). More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$480,127.

The original cost of the District's capital assets was \$13.9 million. Governmental funds account for \$13.6 million, with the remainder \$0.3 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-6			
Capital Assets, net of Depreciation			
(expressed in thousands)			
	Governmental	Business Type	Total
	Activities	Activities	District
Land	\$ 78	-	78
Construction in progress	3	-	3
Buildings	7,124	-	7,124
Improvements other than buildings	631	-	631
Furniture and equipment	559	81	640
Totals	<u>\$ 8,395</u>	<u>81</u>	<u>8,476</u>

Long-Term Debt

At June 30, 2004, the District had \$6,045,029 in general obligation bonds, capital loan notes and other long-term debt outstanding. This represents a decrease of approximately 6% from last year (See Figure A-7). Additional information about the District's long-term debt is presented in Note 4 to the financial statements.

The District has total outstanding bonded indebtedness at June 30, 2004 of \$5,115,000, and outstanding capital loan notes payable of \$777,042.

Figure A-7	
Outstanding Long-Term Obligations	
(expressed in thousands)	
General obligation bonds	\$ 5,115
Capital loan notes payable	777
Early retirement	109
Compensated absences	44
Totals	<u><u>\$ 6,045</u></u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of three existing circumstances that could significantly affect its financial health in the future:

- Local option sales and services tax revenues over the next 10 years will have a significant impact on building improvement projects such as roofing. These funds will also be used to decrease property tax for repaying of the voted PPEL capital loan notes.
- The District has been awarded \$89,099 for a Federal funded Iowa Demonstration Construction Grant Program which was approved by the School Budget Review Committee in December 2003. The District will be reimbursed upon submission of claim for expenditures at the completion of the projects.
- District enrollment decreased slightly in fiscal year 2003-2004 by 2.6 students. This followed fiscal year 2002-03's decrease of 11.8 students. Under Iowa's school funding formula, District funding is highly dependant upon District enrollment. Projections indicate the District will continue to decrease in 2004-05.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact Ned Cox, Superintendent, or Ruth White, Business Manager, Clarke Community School District, 104 ½ South Fillmore, Osceola, Iowa 50213.

Clarke Community School District

Basic Financial Statements

Clarke Community School District

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:	\$ 3,267,738	192,984	3,460,722
Receivables:			
Property tax:			
Delinquent	112,732	-	112,732
Succeeding year	3,272,000	-	3,272,000
Accounts	10,162	15,788	25,950
Due from other governments	106,013	36	106,049
Inventories	-	6,733	6,733
Capital assets, net of accumulated depreciation	8,394,908	81,362	8,476,270
Total assets	15,163,553	296,903	15,460,456
Liabilities			
Accounts payable	154,020	106	154,126
Salaries and benefits payable	949,233	31,065	980,298
Due to other governments	1,183	-	1,183
Accrued interest payable	77,826	-	77,826
Deferred revenue:			
Succeeding year property tax	3,272,000	-	3,272,000
Other	47,155	8,928	56,083
Anticipatory warrant payable	200,000	-	200,000
Anticipatory warrant accrued interest payable	361	-	361
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	275,000	-	275,000
Capital loan notes payable	111,300	-	111,300
Early retirement	57,340	-	57,340
Compensated absences	39,638	-	39,638
Portion due after one year:			
General obligation bonds payable	4,840,000	-	4,840,000
Capital loan notes payable	665,742	-	665,742
Early retirement	51,543	-	51,543
Compensated absences	4,466	-	4,466
Total liabilities	10,746,807	40,099	10,786,906

Clarke Community School District

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	2,534,450	81,362	2,615,812
Restricted for:			
Management levy	102,965	-	102,965
Physical plant and equipment levy	187,648	-	187,648
Other purposes	111,524	-	111,524
Unrestricted	1,480,159	175,442	1,655,601
Total net assets	\$ 4,416,746	256,804	4,673,550

See notes to financial statements.

Clarke Community School District

Statement of Activities

Year ended June 30, 2004

	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<u>Functions/Programs</u>				
Governmental activities:				
Instruction:				
Regular instruction	\$ 4,082,050	57,409	445,360	-
Special instruction	2,092,733	328,538	511,168	-
Other instruction	580,768	231,491	35,829	-
	<u>6,755,551</u>	<u>617,438</u>	<u>992,357</u>	<u>-</u>
Support services:				
Student services	333,320	6,769	21,579	-
Instructional staff services	321,788	370	-	-
Administration services	1,013,711	2,584	-	-
Operation and maintenance of plant services	811,974	11,160	-	-
Transportation services	411,350	29,206	156	-
	<u>2,892,143</u>	<u>50,089</u>	<u>21,735</u>	<u>-</u>
Non-instructional programs	11,690	48	5,683	-
Other expenditures:				
Facilities acquisition	60,149	-	670	115,438
Long-term debt interest	279,441	-	-	-
AEA flowthrough	410,482	-	410,482	-
Depreciation (unallocated)*	364,116	-	-	-
	<u>1,114,188</u>	<u>-</u>	<u>411,152</u>	<u>115,438</u>
Total governmental activities	10,773,572	667,575	1,430,927	115,438
Business type activities:				
Non-instructional programs:				
Food service operations	511,815	253,922	277,439	-
Total	<u>\$ 11,285,387</u>	<u>921,497</u>	<u>1,708,366</u>	<u>115,438</u>

General Revenues:

Property tax levied for:

- General purposes
- Debt service
- Capital outlay

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Gain on disposal of capital assets

Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated (note 9)

Net assets end of year

* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(3,579,281)	-	(3,579,281)
(1,253,027)	-	(1,253,027)
(313,448)	-	(313,448)
(5,145,756)	-	(5,145,756)
(304,972)	-	(304,972)
(321,418)	-	(321,418)
(1,011,127)	-	(1,011,127)
(800,814)	-	(800,814)
(381,988)	-	(381,988)
(2,820,319)	-	(2,820,319)
(5,959)	-	(5,959)
55,959	-	55,959
(279,441)	-	(279,441)
-	-	-
(364,116)	-	(364,116)
(587,598)	-	(587,598)
(8,559,632)	-	(8,559,632)
-	19,546	19,546
(8,559,632)	19,546	(8,540,086)
\$ 3,249,377	-	3,249,377
496,064	-	496,064
445,066	-	445,066
6,024	-	6,024
5,131,648	-	5,131,648
18,711	1,329	20,040
405	62	467
5,469	-	5,469
9,352,764	1,391	9,354,155
793,132	20,937	814,069
3,623,614	235,867	3,859,481
\$ 4,416,746	256,804	4,673,550

Exhibit C

Clarke Community School District

Balance Sheet
Governmental Funds

June 30, 2004

	General	Nonmajor Funds	Total
Assets			
Cash and pooled investments	\$ 2,494,259	767,639	3,261,898
Receivables:			
Property tax:			
Delinquent	85,742	26,990	112,732
Succeeding year	2,679,000	593,000	3,272,000
Accounts	10,162	-	10,162
Due from other governments	105,481	532	106,013
Total assets	\$ 5,374,644	1,388,161	6,762,805
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 149,154	4,866	154,020
Salaries and benefits payable	947,609	1,624	949,233
Due to other governments	1,183	-	1,183
Anticipatory warrant payable	-	200,000	200,000
Accrued interest payable	-	361	361
Deferred revenue:			
Succeeding year property tax	2,679,000	593,000	3,272,000
Other	79,844	10,095	89,939
Total liabilities	3,856,790	809,946	4,666,736
Fund balances:			
Reserved for debt service	-	40,641	40,641
Unreserved	1,517,854	537,574	2,055,428
Total fund balances	1,517,854	578,215	2,096,069
Total liabilities and fund balances	\$ 5,374,644	1,388,161	6,762,805

See notes to financial statements.

Clarke Community School District

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (page 22) \$ 2,096,069

***Amounts reported for governmental activities in the
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 8,394,908

The Internal Service Fund is used by management to charge the costs of funding of the District's flexible benefit plan. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets. 5,840

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 42,784

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. (77,826)

Long-term liabilities, including bonds and notes payable, compensated absences and early retirement, are not due and payable in the current period and, therefore, are not reported in the funds. (6,045,029)

Net assets of governmental activities (page 19) \$ 4,416,746

See notes to financial statements.

Exhibit E

Clarke Community School District

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	General	Nonmajor Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 3,047,292	1,144,100	4,191,392
Tuition	333,122	-	333,122
Other	142,433	235,459	377,892
State sources	5,958,470	775	5,959,245
Federal sources	584,475	114,987	699,462
Total revenues	10,065,792	1,495,321	11,561,113
Expenditures:			
Current:			
Instruction:			
Regular instruction	4,036,114	82,198	4,118,312
Special instruction	2,088,103	3,384	2,091,487
Other instruction	357,900	215,022	572,922
	6,482,117	300,604	6,782,721
Support services:			
Student services	332,567	4,769	337,336
Instructional staff services	320,686	569	321,255
Administration services	985,175	12,479	997,654
Operation and maintenance of plant services	754,508	62,875	817,383
Transportation services	375,581	88,314	463,895
	2,768,517	169,006	2,937,523
Non-instructional programs	5,684	6,007	11,691
Other expenditures:			
Facilities acquisition	-	192,537	192,537
Long-term debt:			
Principal	-	364,902	364,902
Interest and fiscal charges	-	286,673	286,673
AEA flowthrough	410,482	-	410,482
	410,482	844,112	1,254,594
Total expenditures	9,666,800	1,319,729	10,986,529
Excess of revenues over expenditures	398,992	175,592	574,584
Other financing sources (uses):			
Sale of capital assets	405	-	405
Operating transfers in	-	158,700	158,700
Operating transfers out	-	(158,700)	(158,700)
Total other financing sources	405	-	405
Net change in fund balances	399,397	175,592	574,989
Fund balances beginning of year, as restated (note 9)	1,118,457	402,623	1,521,080
Fund balances end of year	\$ 1,517,854	578,215	2,096,069

See notes to financial statements.

Clarke Community School District

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (page 24) \$ 574,989

***Amounts reported for governmental activities in the
Statement of Activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlays in the current year, as follows:

Expenditures for capital assets	\$ 261,327	
Depreciation expense	<u>(459,603)</u>	(198,276)

Certain delinquent property tax not collected for several months after year end is not considered available revenue and is deferred in the governmental funds.		5,138
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Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		364,902
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		7,233
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	45,702	
Compensated absences	<u>(4,611)</u>	41,091

The Internal Service Fund is used by management to charge the costs of the District's flexible benefit plan. The change in net assets of the Internal Service Fund is reported with governmental activities.

(1,945)

Change in net assets of governmental activities (page 21)	\$	<u>793,132</u>
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See notes to financial statements.

Clarke Community School District

Statement of Net Assets
Proprietary Funds

June 30, 2004

	Business Type Activities	Governmental Activities
	Enterprise - School Nutrition	Internal Service - Flex Spending
Assets		
Cash and cash equivalents	\$ 192,984	5,840
Accounts receivable	15,788	-
Due from other governments	36	-
Inventories	6,733	-
Capital assets, net of accumulated depreciation	81,362	-
Total assets	<u>296,903</u>	<u>5,840</u>
Liabilities		
Accounts payable	106	-
Salaries and benefits payable	31,065	-
Deferred revenue	8,928	-
Total liabilities	<u>40,099</u>	<u>-</u>
Net Assets		
Invested in capital assets, net of related debt	81,362	-
Unrestricted	<u>175,442</u>	<u>5,840</u>
Total net assets	<u>\$ 256,804</u>	<u>5,840</u>

See notes to financial statements.

Clarke Community School District

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2004

	Business Type Activities	Governmental Activities
	Enterprise - School Nutrition	Internal Service - Flex Spending
Operating revenues:		
Local sources:		
Charges for service	\$ 253,922	-
Employee contributions	-	21,201
Total operating revenue	253,922	21,201
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	155,578	-
Benefits	62,413	-
Purchased services	10,476	-
Supplies	262,287	-
Other	537	23,194
Depreciation	20,524	-
Total operating expenses	511,815	23,194
Operating loss	(257,893)	(1,993)
Non-operating revenues:		
State sources	7,328	-
Federal sources	270,111	-
Interest income	1,329	48
Gain on disposal of capital assets	62	-
Total non-operating revenues	278,830	48
Change in net assets	20,937	(1,945)
Net assets beginning of year, as restated (note 9)	235,867	7,785
Net assets end of year	\$ 256,804	5,840

See notes to financial statements.

Exhibit I

Clarke Community School District

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	Enterprise - School Nutrition	Internal Service - Flex Spending
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 251,548	-
Cash received from miscellaneous operating activities	2,016	21,201
Cash paid to suppliers for goods or services	(453,284)	(23,194)
Net cash used by operating activities	(199,720)	(1,993)
Cash flows from non-capital financing activities:		
State grants received	7,328	-
Federal grants received	236,209	-
Net cash provided by non-capital financing activities	243,537	-
Cash flows from capital and related financing activities:		
Sale of capital assets	80	-
Acquisition of capital assets	(3,698)	-
Net cash used by capital and related financing activities	(3,618)	-
Cash flows from investing activities:		
Interest on investments	1,329	48
Net increase (decrease) in cash and cash equivalents	41,528	(1,945)
Cash and cash equivalents beginning of year	151,456	7,785
Cash and cash equivalents end of year	\$ 192,984	5,840

Clarke Community School District

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

**Reconciliation of operating loss to net cash used by
operating activities:**

Operating loss	\$ (257,893)	(1,993)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Commodities used	33,902	-
Depreciation	20,524	-
Decrease in inventories	2,639	-
(Increase) in accounts receivable	(936)	-
Increase in accounts payable	106	-
Increase in salaries and benefits payable	1,360	-
Increase in deferred revenue	578	-
Net cash used by operating activities	<u>\$ (199,720)</u>	<u>(1,993)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$33,902 of federal commodities.

See notes to financial statements.

Clarke Community School District

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

	<u>Private Purpose</u> <u>Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets		
Cash and pooled investments	\$ 21,089	88,170
Due from other governments	-	2,657
	<u>-</u>	<u>2,657</u>
Total assets	<u>21,089</u>	<u>90,827</u>
Liabilities		
Accounts payable	-	4,720
Trusts payable	-	86,107
	<u>-</u>	<u>86,107</u>
Total liabilities	<u>-</u>	<u>90,827</u>
Net assets		
Reserved for scholarships	\$ 21,089	-
	<u>21,089</u>	<u>-</u>

See notes to financial statements.

Clarke Community School District

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2004

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Interest income	\$ 1,820
Deductions:	
Support services:	
Scholarships awarded	<u>1,200</u>
Change in net assets	620
Net assets beginning of year	<u>20,469</u>
Net assets end of year	<u><u>\$ 21,089</u></u>

See notes to financial statements.

Clarke Community School District

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Clarke Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Osceola, Iowa, and the predominate agricultural territory in Clarke County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Clarke Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Clarke Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Clarke County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

Additionally, the District reports a nonmajor proprietary fund. The Internal Service, Flex Spending Fund is utilized to account for employee flexible benefits.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	4-12 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid by the General Fund.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investments are all category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

The District's investments at June 30, 2004 are as follows:

Type	Fair Value
Common Stock	<u>\$ 5,111</u>

(3) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 78,000	-	-	78,000
Construction in progress	3,181	24,711	(24,711)	3,181
Total capital assets not being depreciated	81,181	24,711	(24,711)	81,181
Capital assets being depreciated:				
Buildings	10,728,666	132,388	-	10,861,054
Improvements other than buildings	1,101,418	-	-	1,101,418
Furniture and equipment	1,516,987	128,939	(44,203)	1,601,723
Total capital assets being depreciated	13,347,071	261,327	(44,203)	13,564,195
Less accumulated depreciation for:				
Buildings	3,422,630	314,858	-	3,737,488
Improvements other than buildings	420,932	49,258	-	470,190
Furniture and equipment	991,506	95,487	(44,203)	1,042,790
Total accumulated depreciation	4,835,068	459,603	(44,203)	5,250,468
Total capital assets being depreciated, net	8,512,003	(198,276)	-	8,313,727
Governmental activities capital assets, net	\$ 8,593,184	(173,565)	(24,711)	8,394,908
Business type activities:				
Furniture and equipment	\$ 261,900	3,698	(11,262)	254,336
Less accumulated depreciation	163,694	20,524	(11,244)	172,974
Business type activities capital assets, net	\$ 98,206	(16,826)	(18)	81,362

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 10,720
Other	7,736

Support services:

Instructional staff	2,638
Administration	8,214
Transportation	66,179
	95,487

Unallocated

364,116

Total depreciation expense - governmental activities

\$ 459,603

Business type activities:

Food service operations	\$ 20,524
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(4) Anticipatory Warrant

On May 24, 2004, the District entered into an agreement with American State Bank, Osceola, Iowa to provide for the issuance of a warrant in anticipation of school infrastructure local option sales and service tax receipts. The warrant was issued to Clarke Community School District for \$200,000. The warrant is payable from the revenues of the school infrastructure local option sales and service tax, and matures on April 1, 2005 with interest at 2.95 percent per annum.

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 5,375,000	-	260,000	5,115,000	275,000
Capital loan notes	881,944	-	104,902	777,042	111,300
Early retirement	154,585	33,752	79,454	108,883	57,340
Compensated absences	39,493	44,587	39,976	44,104	39,638
Total	\$ 6,451,022	78,339	484,332	6,045,029	483,278

General Obligation Bonds

Details of the District's June 30, 2004 general obligation bond indebtedness are as follows:

Year Ending June 30,	Bond Issue of Mar 1, 1999			
	Interest Rates	Principal	Interest	Total
2005	4.10%	\$ 275,000	221,115	496,115
2006	4.10	285,000	209,840	494,840
2007	4.10	295,000	198,155	493,155
2008	4.10	315,000	186,060	501,060
2009	4.10	320,000	173,145	493,145
2010-2014	4.20-4.40	1,830,000	651,300	2,481,300
2015-2018	4.50-4.60	1,795,000	208,470	2,003,470
Total		\$ 5,115,000	1,848,085	6,963,085

During the year ended June 30, 2004, the District retired \$260,000 of bonds.

General Obligation Capital Loan Notes

Details of the District's June 30, 2004 general obligation capital loan note indebtedness are as follows:

Year Ending June 30,	Capital Loan Note Issue of Aug 15, 2000			
	Interest Rate	Principal	Interest	Total
2005	6.10%	\$ 111,171	47,529	158,700
2006	6.10	118,082	40,618	158,700
2007	6.10	125,285	33,415	158,700
2008	6.10	132,927	25,773	158,700
2009	6.10	140,987	17,713	158,700
2010	6.10	148,590	9,064	157,654
Total		\$ 777,042	174,112	951,154

During the year ended June 30, 2004, the District retired \$104,902 of notes.

Early Retirement

The District offers a voluntary early retirement plan for employees. Eligible employees must be at least age fifty-five but not more than sixty-two on or before June 30 of the year in which the employee wishes to retire and employees must have completed fifteen years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive shall not exceed the employee's current year salary or \$20,000, whichever is less. The early retirement incentive for each eligible employee is equal to the sum of 50% of the employee's unused accumulated sick leave plus 5% of the current salary times the years of service beyond fifteen years, subject to the limits previously stated. Early retirement benefits paid during the year ended June 30, 2004 totaled \$79,454.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$358,175, \$388,648 and \$389,010, respectively, equal to the required contributions for each year.

(7) Risk Management

Clarke Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$739,145.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims, but the potential exists for claims to exceed the premium payments made by members into the program. In the event claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. At June 30, 2004, no liability has been recorded in the District's financial statements.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$410,482 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(9) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial

activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting. The beginning net assets for business type activities have also been restated due to a change in depreciation method.

The effects of the accounting change and other restatements are summarized as follows:

Governmental activities:	Nonmajor		Total
	General	Funds	
Net assets June 30, 2003, as previously reported	\$ 1,109,184	353,642	1,462,826
GASB Interpretation 6 adjustments	9,273	48,981	58,254
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 1,118,457</u>	<u>402,623</u>	1,521,080
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$4,835,068			8,593,184
Long-term liabilities:			
Bonds and notes		\$ 6,256,944	
Early retirement		154,585	
Compensated absences		<u>39,493</u>	(6,451,022)
Internal Service Fund			7,785
Accrued interest payable			(85,059)
Deferred revenue			<u>37,646</u>
Net assets July 1, 2003, as restated			<u>\$ 3,623,614</u>
Business type activities:			Enterprise Fund
Net assets June 30, 2003, as previously reported			\$ 221,259
Change in depreciation method			<u>14,608</u>
Net assets July 1, 2003, as restated			<u>\$ 235,867</u>

Required Supplementary Information

Clarke Community School District

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
Revenues:			
Local sources	\$ 4,902,406	276,562	5,178,968
Intermediate sources	-	-	-
State sources	5,959,245	7,328	5,966,573
Federal sources	699,462	270,111	969,573
Total receipts	11,561,113	554,001	12,115,114
Expenditures:			
Instruction	6,782,721	-	6,782,721
Support services	2,937,523	-	2,937,523
Non-instructional programs	11,691	535,009	546,700
Other expenditures	1,254,594	-	1,254,594
Total disbursements	10,986,529	535,009	11,521,538
Excess (deficiency) of receipts over (under) disbursements	574,584	18,992	593,576
Other financing sources, net	405	-	405
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	574,989	18,992	593,981
Balances beginning of year	1,521,080	243,652	1,764,732
Balances end of year	\$ 2,096,069	262,644	2,358,713

See accompanying independent auditor's report.

Less Funds Not Required to be Budgeted	Net	Original and Final Budgeted Amounts	Budget to Net Variance
(21,249)	5,157,719	5,236,588	(78,869)
-	-	300	(300)
-	5,966,573	6,347,285	(380,712)
-	969,573	753,000	216,573
(21,249)	12,093,865	12,337,173	(243,308)
-	6,782,721	7,930,325	1,147,604
-	2,937,523	3,184,000	246,477
(23,194)	523,506	692,720	169,214
-	1,254,594	1,340,232	85,638
(23,194)	11,498,344	13,147,277	1,648,933
(1,945)	595,521	(810,104)	(1,405,625)
-	405	-	(405)
(1,945)	595,926	(810,104)	(1,406,030)
7,785	1,772,517	1,186,025	(586,492)
5,840	2,368,443	375,921	(1,992,522)

Clarke Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend the budget during the year.

Other Supplementary Information

Clarke Community School District

Clarke Community School District

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

	Special Revenue Funds			Capital Projects Funds			Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	High School Additions	School Infrastructure Local Option	
Assets							
Cash and pooled investments	\$ 206,272	111,985	178,988	232,781	31,584	6,029	767,639
Receivables:							
Property tax:							
Delinquent	5,576	-	8,128	13,286	-	-	26,990
Succeeding year	140,000	-	236,000	217,000	-	-	593,000
Due from other governments	-	-	532	-	-	-	532
Total assets	\$ 351,848	111,985	423,648	463,067	31,584	6,029	1,388,161
Liabilities and Fund Equity							
Liabilities:							
Accounts payable	\$ -	4,866	-	-	-	-	4,866
Salaries and benefits payable	-	1,624	-	-	-	-	1,624
Anticipatory warrants payable	-	-	-	200,000	-	-	200,000
Accrued interest payable	-	-	-	361	-	-	361
Deferred revenue:							
Succeeding year property tax	140,000	-	236,000	217,000	-	-	593,000
Other	2,126	-	2,904	5,065	-	-	10,095
Total liabilities	142,126	6,490	238,904	422,426	-	-	809,946
Fund equity:							
Unreserved fund balances	209,722	105,495	184,744	40,641	31,584	6,029	578,215
Total liabilities and fund equity	\$ 351,848	111,985	423,648	463,067	31,584	6,029	1,388,161

See accompanying independent auditor's report.

Schedule 2

Clarke Community School District
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2004

	Special Revenue Funds				Capital Projects Funds		
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	High School Additions	School Infrastructure Local Option	Total
Revenues:							
Local sources:							
Local tax	\$ 198,155	-	444,670	495,251	-	6,024	1,144,100
Other	922	233,401	220	680	231	5	235,459
State sources	160	-	219	396	-	-	775
Federal sources	-	-	114,987	-	-	-	114,987
Total revenues	199,237	233,401	560,096	496,327	231	6,029	1,495,321
Expenditures:							
Current:							
Instruction:							
Regular instruction	76,592	-	5,606	-	-	-	82,198
Special instruction	3,384	-	-	-	-	-	3,384
Other instruction	1,143	213,879	-	-	-	-	215,022
Support services:							
Student	4,769	-	-	-	-	-	4,769
Instructional staff	569	-	-	-	-	-	569
Administration services	12,479	-	-	-	-	-	12,479
Operation and maintenance of plant services	62,875	-	-	-	-	-	62,875
Transportation	33,771	-	54,543	-	-	-	88,314
Non-instructional programs	6,007	-	-	-	-	-	6,007
Other expenditures:							
Facilities acquisition	-	-	192,537	-	-	-	192,537
Long-term debt:							
Principal	-	-	-	364,902	-	-	364,902
Interest and other charges	-	-	-	286,673	-	-	286,673
Total expenditures	201,589	213,879	252,686	651,575	-	-	1,319,729
Excess (deficiency) of revenues over (under) expenditures	(2,352)	19,522	307,410	(155,248)	231	6,029	175,592
Other financing sources (uses):							
Operating transfers in	-	-	-	158,700	-	-	158,700
Operating transfers out	-	-	(158,700)	-	-	-	(158,700)
Total other financing sources (uses)	-	-	(158,700)	158,700	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,352)	19,522	148,710	3,452	231	6,029	175,592
Fund balances beginning of year, as restated	212,074	85,973	36,034	37,189	31,353	-	402,623
Fund balances end of year	\$ 209,722	105,495	184,744	40,641	31,584	6,029	578,215

See accompanying independent auditor's report.

Clarke Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expend- itures	Balance End of Year
Pop Music	\$ 10	1,137	-	1,147
Pop Athletics	96	3,394	2,498	992
Athletics	557	7,508	6,057	2,008
Publications	6,170	9,220	9,222	6,168
High School Band	10,837	30,707	31,647	9,897
High School Co-curricular	619	305	-	924
High School Vocal Music	10,190	15,773	10,421	15,542
Cheerleaders	2,334	4,130	3,100	3,364
Speech/Debate	339	3,605	3,505	439
FFA	4,551	22,568	20,922	6,197
FHA	846	9	-	855
Medical Careers Club	145	1	-	146
Boys Basketball	2,994	5,773	3,531	5,236
Football	5,804	14,941	10,373	10,372
Baseball	35	2,754	4,883	(2,094)
Boys Track	2,429	4,036	4,278	2,187
Wrestling	520	1,751	2,271	-
Cross Country	-	381	381	-
Tennis	-	-	119	(119)
Girls Basketball	1,505	4,725	3,071	3,159
Volleyball	245	2,389	1,290	1,344
Softball	(683)	4,120	3,861	(424)
Girls Track	2,261	3,930	3,680	2,511
Camp - Boys Basketball	161	1	111	51
Camp - Football	731	4,145	4,087	789
Camp - Wrestling	56	1	-	57
Camp - Girls Basketball	770	7	-	777
Camp - Volleyball	656	6	-	662
Spanish Club	1,156	11	-	1,167
High School Student Council	1,685	2,347	3,249	783
Thespians	3,955	4,498	4,784	3,669

Schedule 3

Clarke Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expend- itures	Balance End of Year
Class of:				
2003	233	2	235	-
2004	1,740	758	2,498	-
2005	1,892	5,326	6,807	411
2006	3,844	37		3,881
2007	3,252	105		3,357
2008	-	8,110	5,255	2,855
Art Club	10,558	7,440	11,290	6,708
Concessions	329	32,606	31,453	1,482
American Field Service	2,115	22	-	2,137
Vending Machine -				
Art/Cheerleaders	300	1,424	1,414	310
TOUCH	411	4	-	415
Get A Grip	36	1	-	37
Media Club	478	140	196	422
Athletic Resale	(4,331)	4,766	4,882	(4,447)
Video/TV	1	-	1	-
Drill Team	8	4,744	4,192	560
Elementary/Junior High				
Band Contest	-	68	68	-
Junior High Student Council	1,132	1,000	643	1,489
Elementary Student Council	1,498	6,617	1,954	6,161
After Prom	1,503	6,058	5,650	1,911
Total	\$ 85,973	233,401	213,879	105,495

See accompanying independent auditor's report.

Clarke Community School District

Schedule of Changes in Fiduciary Assets and Liabilities –
Agency Fund

Year ended June 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 66,393	146,664	124,887	88,170
Due from other governments	-	2,657	-	2,657
Total assets	\$ 66,393	149,321	124,887	90,827
Liabilities				
Accounts payable	\$ 5,808	4,720	5,808	4,720
Trusts payable	60,585	144,601	119,079	86,107
Total liabilities	\$ 66,393	149,321	124,887	90,827

See accompanying independent auditor's report.

Schedule 5

Clarke Community School District

Schedule of Revenues by Source and Expenditures by Function –
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 4,191,392	3,736,749	3,627,428	3,391,045
Tuition	333,122	389,967	344,846	301,208
Other	377,892	396,302	396,875	423,587
State sources	5,959,245	6,044,538	5,900,376	6,011,367
Federal sources	699,462	428,237	481,141	638,709
Total	<u>\$ 11,561,113</u>	<u>10,995,793</u>	<u>10,750,666</u>	<u>10,765,916</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 4,118,312	3,962,238	3,961,982	3,606,766
Special instruction	2,091,487	1,515,063	1,389,211	1,318,876
Other instruction	572,922	1,109,364	1,121,804	1,240,352
Support services:				
Student services	337,336	356,596	340,812	329,413
Instructional staff services	321,255	366,422	533,314	579,392
Administration services	997,654	975,611	969,383	959,915
Operation and maintenance of plant services	817,383	685,159	650,481	703,479
Transportation services	463,895	397,987	371,043	443,939
Central support services	-	-	-	15
Non-instructional programs	11,691	8,366	7,120	9,244
Other expenditures:				
Facilities acquisition	192,537	264,798	464,039	1,314,418
Long-term debt:				
Principal	364,902	348,870	338,186	521,764
Interest and other charges	286,673	301,855	317,584	263,898
Other	-	300	150	600
AEA flowthrough	410,482	433,289	429,027	434,503
Total	<u>\$ 10,986,529</u>	<u>10,725,918</u>	<u>10,894,136</u>	<u>11,726,574</u>

See accompanying independent auditor's report.

Clarke Community School District
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

Grantor/Program	CFDA Number	Grant Number	Expen- ditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY04	\$ 33,902
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY04	33,353
National School Lunch Program	10.555	FY04	202,856
			<u>236,209</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	1211GC	33,073
Title I Grants to Local Educational Agencies	84.010	1211G	176,835
			<u>209,908</u>
Migrant Education - State Grant Program	84.011	1211M	<u>30,959</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY04	<u>5,684</u>
Fund for the Improvement of Education	84.215	FY04	<u>114,987</u>
Innovative Education Program Strategies	84.298	FY04	<u>20,510</u>
Advanced Placement Program	84.330	FY04	<u>104</u>
Improving Teacher Quality State Grants	84.367	FY04	<u>49,099</u>
Grants for State Assessments and Related Activities	84.369	FY04	<u>1,514</u>
Green Valley Area Education Agency:			
Special Education - Grants to States	84.027	FY04	<u>57,211</u>
Vocational Education - Basic Grants to States	84.048	FY04	<u>18,420</u>
Iowa Department of Education - Division of Vocational Rehabilitation Services:			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	03-TAP-02 (FY03)	8,626
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	04-TAOP-02 (FY04)	29,285
			<u>37,911</u>
Total			<u>\$ 816,418</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Clarke Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Clarke Community School District



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Auditor of State

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**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Board of Education of
Clarke Community School District:

We have audited the financial statements of Clarke Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 24, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Clarke Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

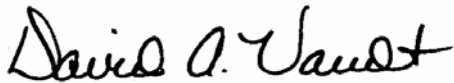
Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

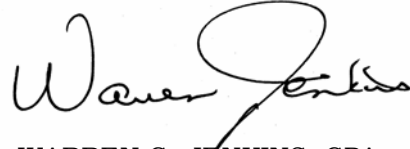
In planning and performing our audit, we considered Clarke Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Clarke Community School District and other parties to whom Clarke Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Clarke Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 24, 2004

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance**

Clarke Community School District



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance**

To the Board of Education of
Clarke Community School District:

Compliance

We have audited the compliance of Clarke Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. Clarke Community School District's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Clarke Community School District's management. Our responsibility is to express an opinion on Clarke Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clarke Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Clarke Community School District's compliance with those requirements.

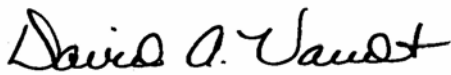
In our opinion, Clarke Community School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

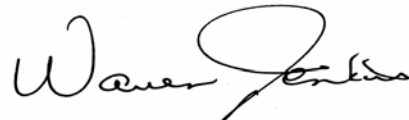
The management of Clarke Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Clarke Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Clarke Community School District and other parties to whom Clarke Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 24, 2004

Clarke Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was as follows:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Clarke Community School District did qualify as a low-risk auditee.

Clarke Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over financial reporting were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

No material weaknesses in internal control over the major program were noted.

Clarke Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Other Findings Related To Statutory Reporting:

- IV-A-04 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget – Disbursements for the year ended June 30, 2004 did not exceed the amounts budgeted.
- IV-C-04 Questionable Expenditures – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-D-04 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-E-04 Business Transactions – No business transactions between the District and District officials or employees were noted.
- IV-F-03 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- IV-G-04 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-H-04 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-I-04 Deposits and Investments – Except as noted below, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

The Private Purpose Trust, Scholarship Fund has an investment in common stock, which does not appear to be an investment permitted by Article VIII of the Constitution of the State of Iowa and Chapter 12B.10 of the Code of Iowa. Since the money was originally donated to fund a scholarship and the stock was purchased in the 1930s, the District, based on advice of its legal counsel, believes it is in the best interest of this fund to continue owning the stock.

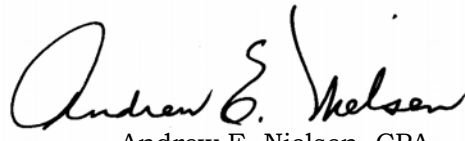
- IV-J-04 Certified Annual Report – The Certified Annual Report was filed with the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

Clarke Community School District

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Kathleen S. Caggiano, Staff Auditor
Nicole B. Tenges, Staff Auditor
Candice R. Meester, Assistant Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State